



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

July 9, 2010

William Walker
Workforce Development Manager
Sacramento Employment and Training Agency
925 Del Paso Boulevard
Sacramento, CA 95815

Dear Mr. Walker:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0220 for the period November 8, 2004 through November 7, 2006.

We did not receive a response to the draft audit report; therefore, our findings and recommendations remain unchanged.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditors during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by
Stephen Runkle
Audit Manager

Enclosures

cc: Gisela Weissman, Employment Services Supervisor

SACRAMENTO CENTRAL OFFICE
1100 J Street, 4th Floor
SACRAMENTO, CA 95814
(916) 327-5640

N. HOLLYWOOD REGIONAL OFFICE
4640 Lankershim Blvd., Suite 311
NORTH HOLLYWOOD, CA 91602
(818) 755-1313

S.F. BAY AREA REGIONAL OFFICE
1065 East Hillsdale Blvd, Suite 415
FOSTER CITY, CA 94404
(650) 655-6930

SAN DIEGO REGIONAL OFFICE
5353 Mission Center Road, Suite 110
SAN DIEGO, CA 92108
(619) 686-1920

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY (SETA)

Agreement No. ET05-0220

Draft Audit Report

For The Period

November 8, 2004 through November 7, 2006

Report Published July 9, 2010

Stephen Runkle, Audit Manager
Telephone: (916) 327-4758

Audit Staff: Eric Khotpanya, Auditor-In-Charge
Lindsay Bowen
Shannon Brooks

Employment Training Panel
Audit Unit
1100 J Street FL 4
Sacramento CA 95814-2827

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AUDITOR'S REPORT

Summary

We performed an audit of Sacramento Employment and Training Agency (SETA)'s compliance with Agreement No. ET05-0220, for the period November 8, 2004 through November 7, 2006. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period September 15, 2008 through May 5, 2009.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$726,028. Our audit supported \$703,689 is allowable. The balance of \$22,339 is disallowed and must be returned to ETP.

The disallowed costs resulted from:

- 6 trainees who did not meet training hour requirements.
- 16 trainees who were ineligible for the small business reimbursement amount.
- 1 trainee who was not employed in an occupation for which training was provided.
- 6 trainees for whom the advance technology reimbursement amount was not supported.
- 1 trainee who did not meet post-training requirements.

In addition, we noted administrative findings for 1 trainee who did not meet retrainee eligibility requirements and the inaccurate reporting of trainee wage rates.

AUDITOR'S REPORT (continued)

Background	<p>Established in 1978, the Sacramento Employment and Training Agency (SETA) is a joint-powers agency of the City and County of Sacramento under the auspices of the Sacramento Works, Inc., Workforce Investment Board (WIB), a partnership of businesses, labor, education organizations, rehabilitation services, public assistance agencies, community-based organizations and local economic development entities.</p> <p>This Agreement was the second between SETA and ETP. SETA representatives, the California Employment Development Department's Labor Market Information Technology Initiative, and information obtained by the local Workforce Investment Board, indicated a high demand existed in the Sacramento region for employees skilled in information technology (computer skills). Based on this demand, SETA proposed to provide information technology training for individuals to enhance their technical skills, increase their job security, and improve their long-term career opportunities in occupations threatened by out-of-state competition. Therefore, this Agreement provided for training in Advance Technology and Computer Skills.</p> <p>This Agreement allowed SETA to receive a maximum reimbursement of \$872,107 for retraining 478 employees. During the Agreement term, the Contractor placed 415 trainees and was reimbursed \$726,028 by ETP.</p>
Objectives, Scope, and Methodology	<p>We performed our audit in accordance with <i>Government Auditing Standards</i>, promulgated by the United States General Accounting Office. We did not audit the financial statements of Sacramento Employment and Training Agency (SETA). Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Sacramento Employment and Training Agency (SETA) complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.</p> <p>Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:</p> <ul style="list-style-type: none">• Trainees were eligible to receive ETP training.• Trainees received the minimum training hours specified in the Agreement

AUDITOR'S REPORT (continued)

- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion

As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$703,689 of the \$726,028 paid to the Contractor under this Agreement is allowable. The balance of \$22,339 is disallowed and must be returned to ETP.

Views of Responsible Officials

The audit findings were discussed with William Walker, Workforce Development Manager, at an informal exit conference held on September 17, 2008, and with Gisela Weissman, Employment Services Supervisor via e-mail on October 14, 2009 and December 11, 2009. A draft audit report was issued to the Contractor on June 8, 2010. The Contractor did not respond in writing to the draft audit report. However, Mr. Walker did contact ETP Auditor on June 16, 2010 via e-mail indicating he was requesting a formal exit conference to discuss the draft audit report. On June 22, 2010, ETP Auditor contacted Mr. Walker by phone to schedule the formal exit conference. Mr. Walker stated Sacramento Employment and Training Agency (SETA) was still considering the option for a formal exit conference, which he would confirm and schedule at a later date. SETA did not respond further regarding a formal exit conference.

The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning May 10, 2009 through the issue date of this final audit report. The interest waiver (adjustment) was \$1,438.48, which was deducted from the total accrued interest.

AUDITOR'S REPORT (continued)

Audit Appeal Rights

If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Stephen Runkle
Audit Manager

Fieldwork Completion Date: May 5, 2009

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05 - 0220 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY (SETA)

AGREEMENT NO. ET05-0220

FOR THE PERIOD

NOVEMBER 8, 2004 THROUGH NOVEMBER 7, 2006

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 726,028</u>	
Disallowed Costs:		
Training Hour Requirement Not Met	13,284	Finding No. 1
Ineligible Small Business Reimbursement Amount	4,784	Finding No. 2
Ineligible Trainee Occupation	1,711	Finding No. 3
Unsupported Advanced Technology Reimbursement Amount	1,705	Finding No. 4
Post-Training Retention Requirement Not Met	855	Finding No. 5
Retrainee Eligibility Not Met	-	Finding No. 6
Inaccurate Reporting	-	Finding No. 7
Total Costs Disallowed	<u>\$ 22,339</u>	
Training Costs Allowed	<u><u>\$ 703,689</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Training records maintained by Sacramento Employment and Training Hour Requirements Not Met Training Agency (SETA) do not support the minimum training hours required for four Job No. 1 trainees and two Job No. 5 trainees. As a result, we disallowed \$13,284 in training costs claimed for these trainees.

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractor to maintain and make available records that clearly document all aspects of training. All classroom/laboratory training records must include hours of attendance and dates of training, be certified daily by the instructor during training, signed (or initialed) daily by the trainee, and signed by the trainer for each type of training.

Paragraph 2 (b) of the Agreement states, “Each trainee should complete 100% of the required Class/Lab videoconference training hours. The Panel will not reimburse the Contractor for a trainee who does not complete a minimum 80% of the required Class/Lab and videoconference training.”

The Agreement required that trainees placed in Job Nos. 1 and 5 attend 115 hours of classroom training. Supported training hours were less than 80 percent of the class/lab training hours required for each of the six trainees noted above. Finding No. 1 (Table A) included below details the basis of this finding for each trainee.

Trainee No.	Job No.	Required Training Hours	Supported Training Hours	Percentage of Training Supported	Code	Disallowed Costs
1	1	115	80	70%	A	\$1,722
5	5	115	75	65%	A	\$2,460
12	5	115	80	70%	B	\$2,460
15	1	115	75	65%	A	\$2,460
27	1	115	75	65%	A	\$2,460
30	1	115	72	63%	A	\$1,722
Total						\$13,284
Legend						
A - Missing trainee and/or trainer signature on rosters.						
B - Missing rosters						

Recommendation SETA must return \$13,284 to ETP. In the future, the Contractor should ensure that training records support that all trainees complete training hour requirements before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – SETA claimed reimbursement for 16 Job No. 6 trainees who were Ineligible Small Business Reimbursement Amount ineligible to be reimbursed for training at the amount specified in the Agreement for employees of small businesses only. As a result, we disallowed the difference between the ETP small business reimbursement amount of \$855 = [(\$20 per hour + support cost) x (40 hours)], which was incorrectly claimed for each of these trainees, and the standard ETP reimbursement amount of \$556 = [(\$13 per hour + support cost) x (40 hours)].

Title 22 California Code of Regulations, Section 4411(a) states in part that “...standardized fixed-fee rates per hour may vary depending on the training delivery method (e.g., classroom/laboratory), complexity of the training, size of employer served, and the type of trainee (e.g., retrainee) receiving training.”

Exhibit A, Chart 1, of the Agreement identifies Job No. 6 was established for small businesses with 100 or fewer full-time employees worldwide.

SETA placed 16 employees of PMI Mortgage Insurance Company (PMI) in Job No 6, which the Agreement included to provide Computer Skills training to businesses with fewer than 100 employees worldwide. However, the Employer Certification Statement submitted to ETP by PMI indicates the company had 1,025 employees worldwide at the time SETA enrolled these trainees. Based on this fact, instead of disallowing these trainees completely from placement, ETP auditor adjusted their reimbursement amounts. Finding No. 2 (Table A) included below details the adjustments.

Trainee No.	Job No.	Required Training Hours	Small Business Amount Paid by ETP	Standard Amount Allowed per Audit	Disallowed Amount
2	6	40	\$855	\$556	\$299
4	6	40	\$855	\$556	\$299
7	6	40	\$855	\$556	\$299
9	6	40	\$855	\$556	\$299
10	6	40	\$855	\$556	\$299
11	6	40	\$855	\$556	\$299
16	6	40	\$855	\$556	\$299
18	6	40	\$855	\$556	\$299
19	6	40	\$855	\$556	\$299
20	6	40	\$855	\$556	\$299
22	6	40	\$855	\$556	\$299
23	6	40	\$855	\$556	\$299
25	6	40	\$855	\$556	\$299
28	6	40	\$855	\$556	\$299
29	6	40	\$855	\$556	\$299
31	6	40	\$855	\$556	\$299
Total					\$4,784

FINDINGS AND RECOMMENDATIONS (continued)

Recommendation SETA must return \$4,784 to ETP. In the future, the Contractor should ensure that only training hours delivered to the employees of businesses with 100 or fewer full-time employees worldwide are submitted to ETP for the Small Business reimbursement amount.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – SETA claimed reimbursement for one Job No. 2 trainee who was
Ineligible Trainee not employed in an occupation specified in the Agreement. Thus,
Occupation we have disallowed \$1,711 in training costs for these trainees.

Exhibit A, paragraph VII. A. of the Agreement states, “Employment for each trainee shall be in the occupations listed in [the Agreement]....” The occupations listed in the Agreement for Job No. 2 and specified to receive Advance Technology training are Computer Operators, Database Analysts, Help Desk Support Staff, Network Administrators, Supervisors, and Managers.

Employer information obtained via Employment Verification Questionnaire identified Trainee No. 21 was employed as an Executive Assistant who performed “secretarial duties” only. Employer information confirmed this trainee was not employed in an occupation specified for Job No. 2 nor did this trainee perform any duties related to the Advance Technology training as provided for by the Agreement.

Recommendation SETA must return \$1,711 to ETP. In the future, the Contractor should ensure all trainees are employed in the occupations specified in the Agreement and perform job functions related to the training received, per the Agreement, prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – Training records maintained by SETA do not support the Advanced Technology reimbursement amount paid for six Job No. 3 trainees. As a result, we disallowed the difference between the ETP Advanced Technology reimbursement amount of \$855 = [(\$20 per hour + support cost) x (40 hours)], which was incorrectly claimed for each of these trainees, and the standard ETP reimbursement amount of \$556 = [(\$13 per hour + support cost) x (40 hours)].

Unsupported
Advanced
Technology
Reimbursement
Amount

Title 22 California Code of Regulations, Section 4411(a) states in part that "...standardized fixed-fee rates per hour may vary depending on the training delivery method (e.g., classroom/laboratory), complexity of the training, size of employer served, and the type of trainee (e.g., retrainee) receiving training."

Exhibit A, paragraph VI. A. of the Agreement states, "Contractor shall provide training pursuant to the Curriculum in Exhibit B." Exhibit B, Page 5, identifies Microsoft Office Courses as Computer Skills training not Advanced Technology training.

Training records maintained by SETA showed that Trainee No. 3 received only Microsoft Word training. Trainee Nos. 6, 8, 13, 14, and 26 received only Microsoft Outlook training. These Microsoft Office Courses are Computer Skills training courses per the terms of the Agreement. Based on this fact, instead of disallowing these trainees completely from placement, ETP auditor adjusted their reimbursement amounts. Finding No. 4 (Table A) included below details the adjustments.

Trainee No.	Job No.	Required Training Hours	Advanced Technology Amount Paid by ETP	Standard Amount Allowed per Audit	Disallowed Amount
3	3	40	\$855	\$556	\$299
6	3	40	\$855	\$556	\$299
8	3	40	\$855	\$556	\$299
13	3	40	\$855	\$556	\$299
14	3	40	\$599	\$389	\$210
26	3	40	\$855	\$556	\$299
Total					\$1,705
Note:					
Reimbursement for Trainee No. 14 subject to a 30 percent reduction due to Substantial Contribution requirements.					

Recommendation SETA must return \$1,705 to ETP. In the future, the Contractor should ensure that only training specified in the Agreement as Advanced Technology is submitted to ETP for the Advanced Technology reimbursement amount.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 5 – SETA received reimbursement for the training costs of one Job No. 3 trainee who did not meet post-training retention requirements. Therefore, we disallowed \$855 in training costs claimed for this trainee.
Post-Training Retention Requirement Not Met

Exhibit A, paragraph VII. A. of the Agreement states, “Each trainee must be employed full-time, at least 35 hours per week with a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training.”

SETA reported that Trainee No. 24 ended training on October 10, 2005 and completed a post-training retention period with the participating employer, Nexus Applied Research, Inc., from October 11, 2005 through January 11, 2006. However, training records maintained by SETA showed that Trainee No. 24’s actual end of training date was October 26, 2005. Based on that date, Trainee No. 24 was required to complete a 90-day retention period from October 26, 2005 through January 25, 2006, but Employment Development Department (EDD) base wage information shows zero wages reported by Nexus Applied Research, Inc. for Trainee No. 24 after December 31, 2005. Thus, based on EDD base wage information, Trainee No. 24 was retained with the participating employer for only 65 days of the 90 days required by the Agreement.

Furthermore, Nexus Applied Research, Inc. did not respond to an Employment Verification Questionnaire. Therefore, ETP Auditor could not obtain any employer payroll documentation to support full-time employment during the required retention period nor any information indicating Trainee No. 24 voluntarily quit.

Recommendation SETA must return \$855 to ETP. In the future, the Contractor should ensure trainees meet post-training retention requirements prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 6 – Employment information shows one Job No. 1 trainee was ineligible
Retrainee to receive training. This trainee did not meet employment
Eligibility Not Met requirements prior to the start date of training. As a result, the
Contractor did not comply with the terms of the Agreement.

Exhibit A, paragraph III of the Agreement requires that trainees be employed full-time by the Contractor or a participating employer for at least 90 days before the trainee begins training. Otherwise, to be eligible a trainee must have been employed at least 20 hours per week for at least 90 days by an eligible employer during the 180-day period preceding the trainee's hire date with the current employer.

Employment information submitted directly from the employer of Trainee No. 17, along with SETA training records, show Trainee No. 17 was hired on November 15, 2005 and began training on November 28, 2005. Employment Development Department base wage information shows this trainee was not employed full-time for at least 20 hours per week for at least 90 of the 180 days preceding the hire date. Thus, this trainee was not eligible to receive training.

Recommendation In the future, SETA should comply with all terms specified in an Agreement with ETP. Failure to comply with the terms of an Agreement may result in repayment of unearned funds, plus applicable interest, to ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 7 – Trainee hourly wage rates reported by SETA on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate
Reporting

Paragraph 2 (d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, Paragraph VII. A. of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on employer responses for 30 of the 36 initial random sample trainees for whom Employment Verification Questionnaires were mailed. Trainee wage rates reported by SETA varied by 5 percent or more from actual wage rates for 21 of the 30 trainees (70 percent).

Recommendation In the future, SETA should ensure all trainee wage rate data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A – Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006